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TO AMEMBASSY LA PAZ IMMEDIATE

INFO AMEMBASSY LONDON

AMEMBASSY BRASILIA

AMEMBASSY BOGOTA

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E.O. 11652: N/A

TAGS: ETRD, EAGR

SUBJECT: BOLIVIAN QUOTA IN INTERNATIONAL COFFEE
AGREEMENT OF 1976

REF: LA PAZ 1466

1. MINISTRY OF INDUSTRY AND COMMERCE CALCULATION OF
BOLIVIA'S QUOTA UNDER THE NEW COFFEE AGREEMENT APPEARS
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CORRECT. UNDER ARTICLE 31 OF THE NEW AGREEMENT, (COPY OF

AGREEMENT BEING POUCHED TO POST) MEMBERS THAT PRODUCE LESS THAN 100,000 BAGS OF COFFEE PER YEAR ARE ASSIGNED AN INITIAL QUOTA (BOLIVIA'S QUOTA IS 73,000) AND THIS QUOTA IS INCREASED AT A RATE OF TEN PERCENT A YEAR FOR COUNTRIES PRODUCING LESS THAN 100,000 BAGS AND FIVE PERCENT FOR COUNTRIES OVER 100,000. ALTHOUGH DEPT. FEELS QUOTAS WILL PROBABLY NOT BE IN EFFECT FOR AT LEAST FIRST TWO YEARS OF THE AGREEMENT, UNOFFICIAL CALCULATION OF BOLIVIA'S QUOTA SHOWS FOLLOWING:

- 1976/77 - 73,000 BAGS
- 1977/78 - 80,300 BAGS
- 1978/79 - 87,600 BAGS
- 1979/80 - 94,900 BAGS
- 1980/81 - 102,200 BAGS

- 1981/82 - 107,310 BAGS

2. ALTHOUGH IT IS NOT EXPLICITLY STATED IN AGREEMENT, QUOTA ALLOTMENT AMONG PRODUCING MEMBERS HAS TRADITIONALLY BEEN A MATTER FOR NEGOTIATION AMONG PRODUCERS. ANY U.S. INVOLVEMENT IN QUOTA BATTLE IN BEHALF OF ONE PRODUCER CAUSES RESENTMENT AMONG ALL OTHER PRODUCERS. RULES FOR DETERMINATION OF QUOTAS FOR MEMBERS PRODUCING LESS THAN 100,000 BAGS (ARTICLE 31) COME FROM A COMPROMISE FORMULA NEGOTIATED IN PRODUCER CAUCUSES DURING THE DECEMBER 1975 ICA NEGOTIATIONS.

3. UNDER THE NEW AGREEMENT, UNLESS THE COUNCIL OF THE COFFEE ORGANIZATION DECIDES OTHERWISE, QUOTAS WILL NOT COME INTO FORCE UNTIL PRICES FALL TO APPROXIMATELY 63.5 CENTS PER POUND OR PRICES FALL 15 PERCENT FROM THE LEVEL OF THE PRECEDING COFFEE YEAR. HOWEVER, QUOTAS WILL NOT ENTER INTO FORCE IF PRICES ARE ABOVE APPROXIMATELY 77.5 CENTS PER POUND. CURRENT COFFEE PRICES ARE AROUND 91.0 CENTS PER POUND. IT IS VERY UNLIKELY THAT QUOTAS WILL ENTER INTO FORCE DURING THE FIRST TWO YEARS OF THE AGREEMENT AND VERY POSSIBLY NOT UNTIL 1979/80 OR LATER. UNTIL QUOTAS ARE IN EFFECT THERE WOULD BE NO RESTRICTIONS ON BOLIVIAN COFFEE EXPORTS.

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4. UNDER EXCEPTIONAL CIRCUMSTANCES THE COFFEE COUNCIL MAY BY A DISTRIBUTED TWO-THIRDS MAJORITY OF BOTH PRODUCERS AND CONSUMERS VOTING SEPARATELY (UNDER ARTICLE 56) RELIEVE A MEMBER OF ITS QUOTA OBLIGATION. THIS MEANS THAT THE COUNCIL CAN GIVE A PRODUCING MEMBER A TEMPORARY INCREASE IN ITS QUOTA. THE REQUEST FOR A WAIVER OF OBLIGATION, HOWEVER, CANNOT BE BASED SOLELY ON THE EXISTENCE OF

AN EXPORTABLE PRODUCTION IN EXCESS OF ITS PERMITTED EXPORTS. A REQUEST FOR A WAIVER BY BOLIVIA COULD NOT BE MADE UNTIL QUOTAS ENTER INTO FORCE. ON ANY WAIVER REQUEST ONE-THIRD OF THE TOTAL PRODUCER VOTES IN THE COUNCIL ARE SUFFICIENT TO DENY THE REQUEST. THE SMALL AMOUNT OF ADDITIONAL QUOTA NECESSARY TO RELIEVE BOLIVIA OF HARDSHIP MAY BE A POINT IN BOLIVIA'S FAVOR.

5. THE U.S. AND OTHER CONSUMER MEMBERS HAVE ON OCCASION EXPRESSED SYMPATHY FOR SMALL EXPORTERS' PROBLEMS WITHOUT GOING SO FAR AS TO ENTER INTO THE PROCESS OF QUOTA ALLOCATION OR CHANGE. IF BOLIVIA ENCOUNTERED QUOTA PROBLEMS DUE TO A COCA SUBSTITUTION PROGRAM, BARRING UNFORESEEN CIRCUMSTANCES, WE WOULD DISCUSS THE SITUATION WITH OTHER PRODUCERS. BOLIVIA SHOULD ALSO SOUND OUT THE ATTITUDES OF OTHER MAJOR PRODUCERS SUCH AS COLOMBIA AND BRAZIL.

6. UNDER ARTICLE 31, PARA 5, ANY EXPORTING MEMBER WHO EXPORTS 100,000 BAGS MAY REQUEST THE COUNCIL TO ASSIGN IT A BASIC QUOTA AND ALLOW THE MEMBER TO PARTICIPATE IN THE DIVISION OF THE ANNUAL QUOTA. WHETHER THIS COURSE WOULD BE ADVANTAGEOUS TO BOLIVIA WOULD DEPEND ON (A) ITS EXPORTS DURING 1976/77, 1977/78 (USED IN CALCULATING THE BASIC QUOTA), (B) ITS STOCK POSITION (USED IN CALCULATING THE VARIABLE PORTION OF THE ANNUAL QUOTA), AND (C) THE SIZE OF THE ANNUAL QUOTA WHEN EXPORT RESTRICTIONS ARE IMPOSED.

7. THE NEW AGREEMENT PROVIDES AN INCENTIVE FOR PRODUCERS THAT CANNOT FULFILL THEIR QUOTA TO DECLARE A SHORTFALL. IF BOLIVIA HAS COFFEE AVAILABLE IT WOULD BE ELIGIBLE TO SHARE IN THE REALLOCATION OF QUOTAS.
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8. BOLIVIA ALWAYS HAS THE OPTION OF SHIPMENT TO NON-QUOTA, NON-MEMBER MARKETS. IN THIS CASE, HOWEVER, IT WOULD NOT ENJOY ANY PRICE PROTECTION AFFORDED BY THE ICA WHEN PRICES WERE DEPRESSED.

9. AS THE COFFEE AGREEMENT HAS ALREADY BEEN NEGOTIATED LITTLE CAN NOW BE DONE TO CHANGE BOLIVIA'S QUOTA. ANY OPPORTUNITY FOR SUPPORT OF A BOLIVIAN CLAIM TO A LARGER SHARE WILL PROBABLY COME THREE TO FOUR YEARS IN THE FUTURE.

10. IN REPLY TO MINISTRY, EMBASSY SHOULD STRESS THAT ANY RESTRICTION ON BOLIVIAN EXPORTS WILL PROBABLY NOT COME BEFORE 1979/80. AT THAT TIME IT IS POSSIBLE THAT

BOLIVIA MAY SHARE IN REALLOCATION OF QUOTAS THAT OTHER PRODUCERS CANNOT FULFILL. INCREASED COFFEE PRODUCTION AND EXPORTS WILL STRENGTHEN BOLIVIA'S CLAIM FOR A LARGER MARKET SHARE IN FUTURE AGREEMENTS. EMBASSY MAY MENTION THAT U.S. ENCOURAGED BY BOLIVIAN INTENTION TO EXPAND COFFEE PRODUCTION. MARKET PROSPECTS FOR NEXT FIVE YEARS APPEAR BRIGHT. KISSINGER

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